

**REPORT OF THE AUDIT OF THE
DAVIESS COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2004**



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE (502) 573-0050
FACSIMILE (502) 573-0067**

EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE DAVISS COUNTY FISCAL COURT

June 30, 2004

The Auditor of Public Accounts has completed the audit of the Daviess County Fiscal Court for fiscal year ended June 30, 2004. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information. In accordance with OMB Circular A-133, we have issued unqualified opinions on the compliance requirements that are applicable to Daviess County's major federal programs: Health Care Facilities and Other Construction Program (CFDA #93.887), EPA- Special Appropriations Program-Horse Fork Basin Project (CFDA #66.606), and Title IV-D Child Support Enforcement (CFDA #93.653).

Financial Condition:

The fiscal court had net assets of \$76,606,265 as of June 30, 2004. The fiscal court had unrestricted net assets of \$13,207,431 in its governmental activities as of June 30, 2004, with total net assets of \$72,113,860. In its enterprise fund, total net cash and cash equivalents were \$1,429,888 with total net assets of \$4,492,405. The fiscal court had total debt principal as of June 30, 2004 of \$17,950,000 with \$1,105,000 due within the next year.

Deposits:

As of June 30, 2004, the fiscal court's deposits were insured and collateralized by bank securities or bonds.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Daviess County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Daviess County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Daviess County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Daviess County, Kentucky, as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Daviess County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2005, on our consideration of Daviess County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 25, 2005

DAVIESS COUNTY OFFICIALS

For The Year Ended June 30, 2004

Fiscal Court Members:

Reid Haire	County Judge/Executive
Bruce Kunze	Commissioner
Jim Lambert	Commissioner
Mike Riney	Commissioner

Other Elected Officials:

Robert Kirtley	County Attorney
David Osborne	Jailer
J. Michael Libs	County Clerk
Susan Tierney	Circuit Court Clerk
Keith Cain	Sheriff
Ron Durbin	Property Valuation Administrator
Bob Howe	Coroner

Appointed Personnel:

Anthony Sook	County Treasurer
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Daviess County Fiscal Court

COUNTY JUDGE/EXECUTIVE
Reid Haire

COUNTY ATTORNEY
Robert M. Kirtley

Daviess County Courthouse
P. O. Box 1716
Owensboro, Kentucky 42302-1716
Telephone: (270) 685-8424
Fax: (270) 685-8469
www.daviessky.org

COUNTY COMMISSIONERS
Bruce Kunze - Central Division
Jim Lambert - East Division
Mike Riney - West Division

Management's Discussion and Analysis June 30, 2004

The financial management of Daviess County, Kentucky offers readers of Daviess County's financial statements this narrative overview and analysis of the financial activities of Daviess County for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with other information that we have furnished in our financial statements and the notes to the financial statements.

Financial Highlights

- Daviess County had net assets of \$76,606,265 as of June 30, 2004. The fiscal court had unrestricted net assets of \$13,207,431 in the governmental activities as of June 30, 2004, with total net assets of \$72,113,860. In the enterprise fund, cash and cash equivalents were \$1,429,888 with total assets of \$4,492,405. Total debt for governmental activities as of June 30, 2004 was \$17,950,000 with \$1,105,000 due within one year.
- The governmental activities total net assets decreased by \$128,960 from the prior year. This decrease is primarily due to depreciation expense.
- At the close of the current fiscal year, Daviess County governmental funds reported current assets of \$14,167,258. Of this amount, \$12,849,567 is available for spending at the government's discretion (unreserved fund balance).
- Daviess County's total indebtedness at the close of fiscal year June 30, 2004 was \$17,950,000, of which \$16,845,000 is long-term debt (due after 1 year) and \$1,105,000 is short-term debt (to be paid within 1 year). Debt additions were \$10,990,000, and debt reductions were \$8,077,444 for a net increase of \$2,912,556 for the year.

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to Daviess County's basic financial statements. Daviess County's basic financial statements are comprised of three components: 1) government wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GASB 34 requires management to include certain comparison schedules when they are available. The schedules include prior and current comparisons of general revenues by major source, and program expenses by function.

Daviess County
Management's Discussion and Analysis
June 30, 2004
(Continued)

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of Daviess County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on Daviess County's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Daviess County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from a cash transaction, except for the recording of depreciation expenses on capital assets in the government-wide financial statements for all activities and in the fund financial statements for the proprietary fund activities.

As a result of the use of the modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received but not paid) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or significant portion of their costs through user fees and charges (*business-type activities*). Daviess County's governmental activities include general government, protection to persons and property, roads, recreation, social services, airport, debt service, capital projects, and administration. Daviess County has two business type activities—Jail Canteen and the Solid Waste Operating Fund.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Daviess County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements. All of the funds of Daviess County can be divided into broad categories: *governmental funds and proprietary funds*.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

**Daviess County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Governmental Funds (Continued)

Because of focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Daviess County maintains (10) ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances.

Major Funds:

- General Fund
- Road Fund
- Jail Fund
- Solid Waste Closure Fund
- County Bond Sinking Fund

Non-major Funds:

- Local Government Economic Assistance Fund
- Solid Waste Post-Closure Fund
- Solid Waste Debt-Service Fund
- Solid Waste Construction Fund
- Daviess County Public Improvement Corporation

Daviess County adopts an annual appropriated budget for its major governmental funds except for the County Bond Sinking Fund, which was not budgeted by the fiscal court. The County Bond Sinking Fund will be budgeted in future years. A budgetary comparison statement has been provided for the General Fund, Road Fund, Jail Fund, and Solid Waste Closure Fund to demonstrate compliance with their budgets.

Proprietary Funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the two enterprise funds: Jail Canteen Fund and Solid Waste Operating Fund, and for the internal service fund: Health Insurance Fund.

Enterprise Funds. Jail Canteen Fund - the county maintains this enterprise fund to account for the sale of items to inmates. Solid Waste Operating Fund - the county maintains this enterprise fund to account for the activities of the landfill.

Internal Service Fund. Health Insurance Fund - The County maintains this internal service fund to account for the health insurance provided for other funds, on a cost reimbursement basis.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position.

Daviess County
Management's Discussion and Analysis
June 30, 2004
(Continued)

Table 1
Daviess County's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Assets						
Current and other assets	\$ 14,209,436	\$ 14,525,122	\$ 1,866,255	\$ 1,429,888	\$ 16,075,691	\$ 15,955,010
Capital assets	73,070,828	75,538,738	2,492,051	3,062,517	75,562,879	78,601,255
Total Assets	87,280,264	90,063,860	4,358,306	4,492,405	91,638,570	94,556,265
Liabilities						
Current and other liabilities	1,589,000	1,105,000	0	0	1,589,000	1,105,000
Long-term liabilities	13,448,444	16,845,000	0	0	13,448,444	16,845,000
Total Liabilities	15,037,444	17,950,000	0	0	15,037,444	17,950,000
Net Assets						
Invested in capital assets, net of related debt	58,033,384	57,588,738	2,492,051	3,062,517	60,525,435	60,651,255
Restricted	1,244,593	1,317,691	0	0	1,244,593	1,317,691
Unrestricted	12,964,843	13,207,431	1,866,255	1,429,888	14,831,098	14,637,319
Total Net Assets	\$ 72,242,820	\$ 72,113,860	\$ 4,358,306	\$ 4,492,405	\$ 76,601,126	\$ 76,606,265

Changes in Net Assets

Governmental Activities. Daviess County's net assets decrease by \$128,960 in fiscal year 2004. Key elements of this are as follows:

- Current assets and cash increased \$315,686, due to unexpected miscellaneous revenues.
- Investment in capital assets and infrastructure, net of related debt decreased \$444,646.
- Current and long-term liabilities increased by \$2,912,556, from additional bond proceeds for tourism and a public works building.
- General revenues were \$16,046,938 and total revenues were \$23,948,388 as reflected in the Statement of Activities
- Expenditures totaled \$24,077,348 as reflected in the Statement of Activities.

Business-type Activities. Daviess County's net assets increased by \$134,099 in fiscal year 2004. Key elements are as follows:

- Current assets and cash decreased by \$436,367.
- Investment in capital and infrastructure net of related debt increased by \$570,466.
- Total revenue was \$3,617,607 as reflected in the Statement of Activities.
- Expenditures totaled \$3,483,508 as reflected in the Statement of Activities.

**Daviess County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Financial Analysis of the County's Net Assets

**Table 2
Daviess County's Comparison
of General Revenue by Source and
Program Expenses by Function**

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Revenue						
General Revenue						
Transfer	\$ 12,487,883	\$ 16,046,938	\$ (975,785)	\$ (730,135)	\$ 11,512,098	\$ 15,316,803
Charges for Services	1,222,080	3,821,789	4,219,747	4,347,742	5,441,827	8,169,531
Operating Grants and Contributions	6,059,073	3,324,582			6,059,073	3,324,582
Capital Grants and Contributions	2,913,625	755,079			2,913,625	755,079
Total Revenue	22,682,661	23,948,388	3,243,962	3,617,607	25,926,623	27,565,995
Expenses						
General Government	8,141,475	6,591,927			8,141,475	6,591,927
Protection to Persons and Property	6,334,853	6,112,248			6,334,853	6,112,248
General Health and Sanitation	408,358	325,501			408,358	325,501
Social Services	246,892	264,451			246,892	264,451
Recreation and Culture	1,292,646	3,321,611			1,292,646	3,321,611
Roads	6,196,552	1,662,765			6,196,552	1,662,765
Airports	54,166	209,422			54,166	209,422
Bus Services	309,518	366,364			309,518	366,364
Interest on Long Term Debt	711,073	849,500			711,073	849,500
Capital Projects	574,658	4,373,559			574,658	4,373,559
Jail Canteen			489,723	462,427	489,723	462,427
Solid Waste Operating			2,862,617	3,021,081	2,862,617	3,021,081
Total Expenses	\$ 24,270,191	\$ 24,077,348	\$ 3,352,340	\$ 3,483,508	\$ 27,622,531	\$ 27,560,856

As noted earlier, Daviess County uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements.

**Daviess County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Financial Analysis of the County's Funds (Continued)

Governmental Funds Overview. The focus of Daviess County governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of June 2004 fiscal year, the combined ending fund balances of County governmental funds were \$14,167,258. Approximately 91% (\$12,849,567) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$1,317,691) is reserved to indicate that it is not available for new spending because it is committed for various encumbrances and landfill post closure.

The County has (5) five major governmental, and (5) non-major funds.

Major Funds

- General Fund
- Road Fund
- Jail Fund
- Solid Waste Closure Fund
- County Bond Sinking Fund

Non-major Funds

- Local Government Economic Assistance Fund
- Solid Waste Post Closure Fund
- Solid Waste Debt Service Fund
- Solid Waste Construction Fund
- Daviess County Public Improvement Corporation

1. The General Fund is the chief operating fund of Daviess County. At the end of June 30, 2004 fiscal year, unreserved fund balance of the General Fund was \$9,098,996. The County received \$8,990,530 in real and personal property, motor vehicle, and other taxes for approximately 54% of the county's general revenues. Various other service fees and miscellaneous revenues contribute to the remaining 46% of revenues.
2. The Road Fund is the fund related to County road construction and maintenance. The Road Fund had a \$98,545 fund balance at June 30, 2004. The fiscal year 2004 expenditures for Road Fund were \$2,888,879.
3. The Jail Fund is used to account for the operation of the County's detention program. The Jail Fund had a balance at June 30, 2004 of \$90,995. The Jail Fund received \$3,395,737 for intergovernmental fees, primarily for housing prisoners. The General Fund contributed \$900,000 to the jail operations.
4. The Solid Waste Closure Fund had a balance of \$2,178,470 as of June 30, 2004. These funds are held for future closure activity at the West Daviess County Landfill.

**Daviess County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Financial Analysis of the County's Funds (Continued)

Governmental Funds Overview (Continued)

5. The County Bond Sinking Fund is used to account for bond proceeds, capital expenditures, and debt service related to the Series 2003 bonds. The County Bond Sinking Fund had a balance at June 30, 2004 of \$295,510.
6. The Local Government Economic Assistance Fund had a fund balance of \$162,407, a decrease of \$516,573 over the previous fiscal year end because of capital projects related to the East Fire Station and the Public Works Building.
7. The Solid Waste Post-Closure Fund had a balance of \$1,317,691 as of June 30, 2004 and these funds are held for future post-closure cost activity at the West Daviess County Landfill.
8. The Solid Waste Debt Service Fund had a fund balance of \$316,930 as of June 30, 2004.
9. The Solid Waste Construction Fund had a fund balance of \$123,382 at June 30, 2004. These funds are used for construction in progress at the West Daviess County Landfill.
10. The Daviess County Public Improvement Corporation Fund had a fund balance of \$484,332 as of June 30, 2004.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide statements, but in more detail.

Daviess County has two (2) enterprise-type proprietary funds, they are:

- Jail Canteen Fund
- Solid Waste operating Fund

The Jail Canteen Fund's unrestricted net assets at the end of June 30, 2004 fiscal year, amounted to \$211,828 and total assets were \$267,722.

The Solid Waste Operating Fund at the end of June 30, 2004 fiscal year had \$4,224,683 in total net assets, \$1,218,060 in unrestricted net assets, and \$3,006,623 invested in capital assets.

Daviess County has one internal service fund: Health Insurance Fund. The Health Insurance Fund's unrestricted net assets at the end of June 30, 2004 fiscal year amounted to \$357,864. This amount is included in governmental activities at the government-wide level.

General Fund Budgetary Highlights

Daviess County's budget was amended during the fiscal year increasing the budgeted amount by \$5,017,150. Budget amendments were made to various expenditures due to grants awarded in the fiscal year for Emergency Management, Borrowed Money, and a dividend from the closure of a local hospital board.

Daviess County
Management's Discussion and Analysis
June 30, 2004
(Continued)

Capital Assets and Debt Administration

Capital Assets. Daviess County's investment in capital assets for its government and business type activities as of June 30, 2004, amount to \$78,601,255 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements to land other than buildings, equipment, vehicles, infrastructure, construction in progress for park improvements, and old jail improvement.

Major capital asset events during the 2004 fiscal year included the continued construction of the landfill, construction of a public works building, construction of a fire station, heavy equipment for solid waste and road operations, and the purchase of several vehicles.

Additional information of the County's capital assets can be found in Note 3 of this report.

Table 3
Daviess County's Capital Assets, Net of Accumulated Depreciation

	Governmental Activities		Business-type Activities		Total	
	2003	2004	2003	2004	2003	2004
Infrastructure Assets	\$52,265,294	\$49,807,719	\$ 0	\$ 0	\$52,265,294	\$49,807,719
Land	997,309	1,868,209	316,250	316,250	1,313,559	2,184,459
Const. In Progress	137,624	4,672,669	0	205,317	137,624	4,877,986
Bldgs. & Improvements	16,501,352	16,009,708	886,374	770,667	17,387,726	16,780,375
Other Equip.	0	0	0	0	0	0
Vehicles & Equip.	3,169,249	3,180,433	1,289,427	1,770,283	4,458,676	4,950,716
Total Net Capital Assets	\$73,070,828	\$75,538,738	\$2,492,051	\$3,062,517	\$75,562,879	\$78,601,255

Long-term Debt. At the end of the 2004 fiscal year, Daviess County had total bonded debt outstanding of \$16,195,000 from General Obligation Bonds. The County has (2) two financing obligations totaling \$1,755,000.

**Daviess County
Management's Discussion and Analysis
June 30, 2004
(Continued)**

Other Matters. The following factors are expected to have a significant effect on the County's financial position or results of operations and were taken into account in developing the 2005 fiscal year budget:

- The 2005 fiscal year adopted budget continues most services at current levels.
- The County constructed a fire station in 2004, the operation of which is budgeted in 2005.
- Program cuts at the State level, particularly relating to the cost of housing prisoners, will have a negative impact on funding for county programs.
- Economic factors indicate continued growth for Daviess County.

The County received a \$1,000,000 EPA grant to purchase land and construct a retention basin. The resulting land will be used for green-space for parks and recreation

Requests For Information

This financial report is designed to provide a general overview of Daviess County's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this or requests for additional financial information should be addressed to the Daviess County Treasurer, 212 St. Ann Street, Second Floor, Owensboro, KY 42103.

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DAVIESS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

DAVIESS COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2004

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 14,525,122	\$ 1,429,888	\$ 15,955,010
Total Current Assets	<u>14,525,122</u>	<u>1,429,888</u>	<u>15,955,010</u>
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation			
Land	1,868,209	316,250	2,184,459
Land Improvements	77,255	311,061	388,316
Construction in Progress	4,672,669	205,317	4,877,986
Buildings	15,932,453	459,606	16,392,059
Vehicles and Equipment	3,180,433	1,770,283	4,950,716
Infrastructure Assets - Net of Depreciation	<u>49,807,719</u>		<u>49,807,719</u>
Total Noncurrent Assets	<u>75,538,738</u>	<u>3,062,517</u>	<u>78,601,255</u>
Total Assets	<u>90,063,860</u>	<u>4,492,405</u>	<u>94,556,265</u>
LIABILITIES			
Current Liabilities:			
Bonds Payable	725,000		725,000
Financing Obligations Payable	<u>380,000</u>		<u>380,000</u>
Total Current Liabilities	<u>1,105,000</u>		<u>1,105,000</u>
Noncurrent Liabilities:			
Bonds Payable	15,470,000		15,470,000
Financing Obligations Payable	<u>1,375,000</u>		<u>1,375,000</u>
Total Noncurrent Liabilities	<u>16,845,000</u>		<u>16,845,000</u>
Total Liabilities	<u>17,950,000</u>		<u>17,950,000</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	57,588,738	3,062,517	60,651,255
Restricted For:			
Post-Closure Care Costs	1,317,691		1,317,691
Unrestricted	<u>13,207,431</u>	<u>1,429,888</u>	<u>14,637,319</u>
Total Net Assets	<u>\$ 72,113,860</u>	<u>\$ 4,492,405</u>	<u>\$ 76,606,265</u>

The accompanying notes are an integral part of the financial statements.

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DAVISS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

DAVISS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 6,591,927	\$ 234,760	\$ 1,093,823	\$ 755,079
Protection to Persons and Property	6,112,248	3,485,646	592,121	
General Health and Sanitation	325,501	54,392		
Social Services	264,451			
Recreation and Culture	3,321,611	32,557		
Roads	1,662,765	14,434	1,638,638	
Airports	209,422			
Bus Services	366,364			
Debt Service	849,500			
Capital Projects	4,373,559			
Total Governmental Activities	24,077,348	3,821,789	3,324,582	755,079
Business-type Activities:				
Jail Canteen	462,427	447,542		
Solid Waste Operations	3,021,081	3,900,200		
Total Business-type Activities	3,483,508	4,347,742		
Total Primary Government	\$ 27,560,856	\$ 8,169,531	\$ 3,324,582	\$ 755,079

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Motor Vehicle Taxes

Other Taxes

Excess Fees

Surplus Real Property Sales

Miscellaneous Revenues

Vending Commissions

Telephone Commissions

Farm Income

Insurance Reimbursement

Other Receipts

Interest Received

Accrued Interest Received on Bonds

Gain on Disposal of Property

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-Type Activities	Totals
\$ (4,508,265)		\$ (4,508,265)
(2,034,481)		(2,034,481)
(271,109)		(271,109)
(264,451)		(264,451)
(3,289,054)		(3,289,054)
(9,693)		(9,693)
(209,422)		(209,422)
(366,364)		(366,364)
(849,500)		(849,500)
(4,373,559)		(4,373,559)
(16,175,898)		(16,175,898)
	(14,885)	(14,885)
	879,119	879,119
	864,234	864,234
(16,175,898)	864,234	(15,311,664)
3,980,366		3,980,366
620,945		620,945
803,385		803,385
3,609,028		3,609,028
710,890		710,890
36,505		36,505
4,440,004		4,440,004
152		152
145,661		145,661
1,536		1,536
10,186		10,186
232,527		232,527
421,559	20,091	441,650
85,939		85,939
139,044	58,985	198,029
809,211	(809,211)	
16,046,938	(730,135)	15,316,803
(128,960)	134,099	5,139
72,242,820	4,358,306	76,601,126
\$ 72,113,860	\$ 4,492,405	\$ 76,606,265

The accompanying notes are an integral part of the financial statements.

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DAVIESS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

DAVIESS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2004

	<u>General Fund</u>	<u>Road Fund</u>	<u>Jail Fund</u>	<u>Solid Waste Closure Fund</u>	<u>County Bond Sinking Fund</u>	
ASSETS						
Cash and Cash Equivalents	\$ 9,098,996	\$ 98,545	\$ 90,995	\$ 2,178,470	\$ 295,510	.
Total Assets	<u>\$ 9,098,996</u>	<u>\$ 98,545</u>	<u>\$ 90,995</u>	<u>\$ 2,178,470</u>	<u>\$ 295,510</u>	.
FUND BALANCES						
Unreserved:						
General Fund	\$ 9,098,996	\$	\$	\$	\$	
Special Revenue Funds		98,545	90,995	2,178,470		
Capital Projects Fund						
Debt Service Funds					295,510	
Reserved:						
Landfill Post Closure						.
Total Fund Balances	<u>\$ 9,098,996</u>	<u>\$ 98,545</u>	<u>\$ 90,995</u>	<u>\$ 2,178,470</u>	<u>\$ 295,510</u>	.

The accompanying notes are an integral part of the financial statements.

DAVISS COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2004
(Continued)

	Non-Major Governmental Funds	Total Governmental Funds
ASSETS		
Cash and Cash Equivalents	\$ 2,404,742	\$ 14,167,258
Total Assets	<u>\$ 2,404,742</u>	<u>\$ 14,167,258</u>
FUND BALANCES		
Unreserved:		
General Fund	\$	\$ 9,098,996
Special Revenue Funds	162,407	2,530,417
Capital Projects Fund	123,382	123,382
Debt Service Funds	801,262	1,096,772
Reserved:		
Landfill Post Closure	<u>1,317,691</u>	<u>1,317,691</u>
Total Fund Balances	<u>\$ 2,404,742</u>	<u>\$ 14,167,258</u>

Reconciliation of the Balance Sheet-Governmental Funds to the Statement of Net Assets

Total Fund Balances	\$ 14,167,258
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	137,914,726
Accumulated Depreciation	(62,375,988)
Internal Service Fund is used by management to charge the cost of health insurance to individual funds. The assets and liabilities are included in governmental activities on the Statement of Net Assets	357,864
Long-term debt is not due and payable in the current period and, therefore, is not reported in the funds.	
Due Within One Year - Bonds and Financing Obligations Principal	(1,105,000)
Due In More Than One Year - Bonds and Financing Obligations Principal	<u>(16,845,000)</u>
Net Assets Of Governmental Activities	<u>\$ 72,113,860</u>

The accompanying notes are an integral part of the financial statements.

DAVISS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	General Fund	Road Fund	Jail Fund	Solid Waste Closure Fund
REVENUES				
Taxes	\$ 8,990,530	\$	\$	\$
In Lieu Tax Payments	1,319			
Excess Fees	710,890			
Licenses and Permits	171,210			
Intergovernmental	5,986,140	1,396,509	3,395,737	
Charges for Services	77,942		317,203	
Miscellaneous	608,803	43,013	251,869	
Interest	201,454	5,109	112,978	23,859
Total Revenues	16,748,288	1,444,631	4,077,787	23,859
EXPENDITURES				
General Government	4,885,134			
Protection to Persons and Property	2,140,027		4,511,409	
General Health and Sanitation	261,865			62,113
Social Services	265,332			
Recreation and Culture	1,563,328			
Roads		2,887,846		
Airports	209,422			
Bus Services	366,364			
Debt Service	64,323		395,073	
Capital Projects	2,481,993			
Administration	1,782,401	1,033	512	
Total Expenditures	14,020,189	2,888,879	4,906,994	62,113
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	2,728,099	(1,444,248)	(829,207)	(38,254)
Other Financing Sources (Uses)				
Bond Proceeds				
Bond Discount				
Transfers From Other Funds	1,094	1,300,000	900,000	288,328
Transfers To Other Funds	(2,404,469)		(127,992)	
Total Other Financing Sources (Uses)	(2,403,375)	1,300,000	772,008	288,328
Special Item				
Proceeds from disposal of capital assets	561,573			
Net Change in Fund Balances	886,297	(144,248)	(57,199)	250,074
Fund Balances - Beginning	8,212,699	242,793	148,194	1,928,396
Fund Balances - Ending	\$ 9,098,996	\$ 98,545	\$ 90,995	\$ 2,178,470

The accompanying notes are an integral part of the financial statements

DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

County Bond Sinking Fund	Non-Major Governmental Funds	Total Governmental Funds
\$	\$	\$ 8,990,530
		1,319
		710,890
		171,210
	541,469	11,319,855
		395,145
		903,685
105,833	58,266	507,499
<u>105,833</u>	<u>599,735</u>	<u>23,000,133</u>
		4,885,134
		6,651,436
	8,237	332,215
		265,332
2,211,315	493,738	4,268,381
	270,000	3,157,846
		209,422
		366,364
6,811,381	1,475,175	8,745,952
1,891,566		4,373,559
1,250	10	1,785,206
<u>10,915,512</u>	<u>2,247,160</u>	<u>35,040,847</u>
<u>(10,809,679)</u>	<u>(1,647,425)</u>	<u>(12,040,714)</u>
10,990,000		10,990,000
(180,992)		(180,992)
296,181	557,163	3,342,766
	(1,094)	(2,533,555)
<u>11,105,189</u>	<u>556,069</u>	<u>11,618,219</u>
		<u>561,573</u>
295,510	(1,091,356)	139,078
	3,496,098	14,028,180
<u>\$ 295,510</u>	<u>\$ 2,404,742</u>	<u>\$ 14,167,258</u>

The accompanying notes are an integral part of the financial statements

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**DAVIESS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2004

DAVISS COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

Net Change in Fund Balances - Total Governmental Funds	\$ 139,078
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Book Value - Disposed Assets	(422,529)
Capital Outlay	2,585,850
Construction in Progress	4,672,669
Depreciation Expense	(4,368,080)
Internal service funds are used by management to charge the cost of health insurance to individual funds. The net revenues (expenses) of this fund are reported with governmental activities.	176,608
The issuance of long-term debt (e.g. bonds, financing obligations) provides current financial resources to governmental funds, financial obligations, while the repayment of principal on long-term debt consumes the current financial resources of governmental funds.	
These transactions, however, have no effect on net assets.	
Bond Issuance Proceeds	(10,990,000)
Financing Obligations Principal Payment	7,657,444
Bond Principal Payment	420,000
	<hr/>
Change in Net Assets of Governmental Activities	<u><u>\$ (128,960)</u></u>

The accompanying notes are an integral part of the financial statements

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DAVIESS COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2004

DAVISS COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

June 30, 2004

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Jail Canteen Fund	Solid Waste Operating Fund	Totals	Internal Service Fund - Health Insurance Fund
Assets				
Current Assets:				
Cash and Cash Equivalents	\$ 211,828	\$ 1,218,060	\$ 1,429,888	\$ 357,864
Total Current Assets	211,828	1,218,060	1,429,888	357,864
Noncurrent Assets:				
Capital Assets:				
Land		316,250	316,250	
Construction In Progress		205,317	205,317	
Land Improvements		7,910,569	7,910,569	
Buildings		584,197	584,197	
Vehicles and Equipment	79,693	4,245,262	4,324,955	
Less Accumulated depreciation	(23,799)	(10,254,972)	(10,278,771)	
Total Noncurrent Assets	55,894	3,006,623	3,062,517	
Total Assets	267,722	4,224,683	4,492,405	357,864
Net Assets				
Invested in Capital Assets, Net of Related Debt	55,894	3,006,623	3,062,517	
Unrestricted	211,828	1,218,060	1,429,888	357,864
Total Net Assets	\$ 267,722	\$ 4,224,683	\$ 4,492,405	\$ 357,864

The accompanying notes are an integral part of the financial statements.

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DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Jail Canteen Fund	Solid Waste Operating Fund	Totals	Internal Service Fund - Health Insurance Fund
Operating Revenues				
Canteen Receipts	\$ 447,542	\$	\$ 447,542	\$
Refunds/Reimbursements				239,319
Tipping Fees		3,783,599	3,783,599	
Recycling Receipts		54,857	54,857	
Other Receipts		61,744	61,744	
Total Operating Revenues	447,542	3,900,200	4,347,742	239,319
Operating Expenses				
Administration Fees				63,476
Cost of Sales	323,224		323,224	
Educational and Recreational	119,825		119,825	
Personnel Costs		1,362,486	1,362,486	
Insurance		47,996	47,996	
Repairs & Maintenance		149,523	149,523	
Telephone		6,598	6,598	
Utilities		16,052	16,052	
Fuel & Oil		217,479	217,479	
Materials & Supplies		31,268	31,268	
Tires & Tubes		65,531	65,531	
Uniforms		9,170	9,170	
Sampling/Monitoring		48,577	48,577	
Consulting Engineering		7,013	7,013	
Equipment Rental		72,646	72,646	
Environmental Remediation Fee		298,567	298,567	
Leachate Disposal		25,060	25,060	
Registrations, Conferences & Training		6,608	6,608	
Office Supplies		3,591	3,591	
Gravel		31,641	31,641	
Special Waste Diversion		4,321	4,321	
Tire Disposal		5,998	5,998	
Legal Fees		7,983	7,983	
Data Processing		6,744	6,744	
Food - Work Release		16,843	16,843	

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004
(Continued)

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Jail Canteen Fund	Solid Waste Operating Fund	Totals	Internal Service Fund - Health Insurance Fund
Operating Expenses (continued)				
Prisoner Uniforms - Footwear	\$	\$ 2,856	\$ 2,856	\$
Tools		6,618	6,618	
Site Reclamation		8,733	8,733	
Depreciation	12,782	518,562	531,344	
Equipment		8,823	8,823	
Building and Construction		27,361	27,361	
Miscellaneous	6,596	6,433	13,029	
Total Operating Expenses	462,427	3,021,081	3,483,508	63,476
Operating Income (Loss)	(14,885)	879,119	864,234	175,843
Nonoperating Revenues (Expenses)				
Interest Income	4,085	16,006	20,091	765
Inmate Pay From State	14,694		14,694	
Gain on Disposal of Assets		58,985	58,985	
Inmate Refunds	(14,694)		(14,694)	
Total Nonoperating Revenues (Expenses)	4,085	74,991	79,076	765
Net Income (Loss) Before Transfers	(10,800)	954,110	943,310	176,608
Transfers Out		(809,211)	(809,211)	
Change In Net Assets	(10,800)	144,899	134,099	176,608
Total Net Assets - Beginning	278,522	4,079,784	4,358,306	181,256
Total Net Assets - Ending	\$ 267,722	\$ 4,224,683	\$ 4,492,405	\$ 357,864

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004

DAVIESS COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2004

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities Internal Service Fund - Health Insurance Fund
	<u>Jail Canteen Fund</u>	<u>Solid Waste Operating Fund</u>	<u>Totals</u>	
Cash Flows From Operating Activities				
Receipts From Customers	\$ 447,542	\$ 3,838,456	\$ 4,285,998	\$
Other Receipts		61,744	61,744	239,319
Administrative Expenses				(63,476)
Insurance		(47,996)	(47,996)	
Repairs & Maintenance		(149,523)	(149,523)	
Fuel & Oil		(217,479)	(217,479)	
Materials & Supplies		(31,268)	(31,268)	
Tires & Tubes		(65,531)	(65,531)	
Equipment Rental		(72,646)	(72,646)	
Equipment Environmental Remediation Fee		(298,567)	(298,567)	
Professional Fees		(7,013)	(7,013)	
Other Operating Expenses		(250,010)	(250,010)	
Cost of Sales	(323,224)		(323,224)	
Educational and Recreational	(119,825)		(119,825)	
Personnel Costs		(1,362,486)	(1,362,486)	
Miscellaneous	(6,596)		(6,596)	
Net Cash (Used) Provided By Operating Activities	(2,103)	1,397,681	1,395,578	175,843
Cash Flows From Noncapital Financing Activities				
Inmate Pay From State	14,694		14,694	
Inmate Refunds on Accounts	(14,694)		(14,694)	
Transfers To Other Funds		(809,211)	(809,211)	
Net Cash (Used) By Noncapital Financing Activities		(809,211)	(809,211)	
Cash Flows From Capital and Related Financing Activities				
Proceeds from disposition of Capital Assets		74,440	74,440	
Capital Assets Purchased	(36,933)	(1,080,332)	(1,117,265)	
Net Cash (Used) By Capital and Related Financing Activities	(36,933)	(1,005,892)	(1,042,825)	
Cash Flows From Investing Activities				
Interest Earned	4,085	16,006	20,091	765
Net Cash Provided By Investing Activities	4,085	16,006	20,091	765

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
STATEMENT OF CASH FLOWS-
PROPRIETARY FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2004 (Continued)

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental Activities Internal Service Fund - Health Insurance Fund
	Jail Canteen Fund	Solid Waste Operating Fund	Totals	
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (34,951)	\$ (401,416)	\$ (436,367)	\$ 176,608
Cash and Cash Equivalents - July 1, 2003	246,779	1,619,476	1,866,255	181,256
Cash and Cash Equivalents - June 30, 2004	<u>\$ 211,828</u>	<u>\$ 1,218,060</u>	<u>\$ 1,429,888</u>	<u>\$ 357,864</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities				
Operating Income (Loss)	\$ (14,885)	\$ 879,119	\$ 864,234	\$ 175,843
Adjustments to Reconcile Operating Income To Net Cash Provided By Operating Activities - Depreciation Expense	<u>12,782</u>	<u>518,562</u>	<u>531,344</u>	
Total Cash Provided (Used) By Operating Activities	<u>\$ (2,103)</u>	<u>\$ 1,397,681</u>	<u>\$ 1,395,578</u>	<u>\$ 175,843</u>

The accompanying notes are an integral part of the financial statements.

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DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances), if applicable.

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets is included in the Statement of Net Assets and the corresponding depreciation expense is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Daviess County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or their exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government.

Blended Component Unit

Daviess County Public Improvement Corporation

The Daviess County Fiscal Court appoints the Public Improvement Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Improvement Corporation. Financial information for the Public Improvement Corporation is blended within Daviess County's financial statements. All activities of the Public Improvement Corporation are accounted for within a non-major (debt service) fund.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Kentucky law provides for election of the officials below from the geographic area constituting Daviess County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

Additional Daviess County Elected Officials

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary) and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck license distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of revenue for this fund are reimbursements from the state and federal government, other counties for housing prisoners and transfers from the General Fund. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

Solid Waste Closure Fund - The purpose of this fund is to account for the \$2 collected from every ton deposited at the County's contained landfill. These funds may be used for landfill closure costs.

County Bond Sinking Fund - The purpose of this fund is to account for bond proceeds, capital construction costs, and debt service payments.

The primary government also has the following non-major funds: Local Government Economic Assistance Fund, Solid Waste Post Closure Fund, Solid Waste Debt Service Fund, Solid Waste Construction Fund, and the Public Improvement Corporation Fund. These funds are used to account for the proceeds of specific revenue sources and expenditures that are restricted for specific purposes.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Special Revenue Funds:

The Road Fund, Jail Fund, Solid Waste Closure Fund, Local Government Economic Assistance Fund, and Solid Waste Post-Closure Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Capital Projects Fund:

The Solid Waste Construction Fund is presented as a capital projects fund. Capital projects funds are to account for the financial resources to be used for the acquisition or construction of major capital facilities.

Debt Service Funds:

The County Bond Sinking Fund, Solid Waste Debt Service Fund, and Public Improvement Corporation are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. The principal operating revenues of the county's enterprise funds are charges to customers for sales in the Jail Canteen Fund and charges to customers for tipping fees in the Solid Waste Operating Fund. Operating expenses for the enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued November 30, 1989, unless the Governmental Accounting Standards Board (GASB) adopts such FASB Statements or Interpretations.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following major proprietary funds:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Solid Waste Operating Fund - The primary purpose of this fund is to account for the activities of the landfill. The primary sources of revenue for this fund are from charges to customers for tipping fees.

Internal Service Fund

The primary government reports the following internal service fund:

Health Insurance Fund - The Fiscal Court maintains this internal service fund to account for the health insurance provided for other funds, on a cost reimbursement basis.

D. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

E. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Capital Assets (Continued)

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-25
Buildings and Building Improvements	\$ 50,000	10-40
Machinery and Equipment	\$ 5,000	5-10
Vehicles	\$ 5,000	5-10
Infrastructure	\$ 25,000	10-50

F. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

G. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance, if applicable.

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Deposits

The County maintains deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2004, the county's deposits were fully insured or collateralized at 100% level with collateral of either pledged securities held by the county's agent in the county's name or provided surety bond which named the county as beneficiary/obligee on the bond.

The County's deposits are categorized below to give an indication of the level of risk assumed by the County as of June 30, 2004.

	<u>Bank Balance</u>
FDIC Insured	\$ 580,762
Collateralized with securities held by pledging depository institution in the County's name	15,046,869
Total	<u>\$ 15,627,631</u>

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Construction in Progress	\$ 137,624	\$ 4,672,669	\$ (137,624)	4,672,669
Land	997,309	895,900	(25,000)	1,868,209
Total Capital Assets Not Being Depreciated	1,134,933	5,568,569	(162,624)	6,540,878
Capital Assets, Being Depreciated:				
Land Improvements		80,895		80,895
Buildings	21,809,588	111,911	(531,666)	21,389,833
Vehicles and Equipment	7,780,599	688,154	(459,262)	8,009,491
Infrastructure	101,084,639	808,990		101,893,629
Total Capital Assets Being Depreciated	130,674,826	1,689,950	(990,928)	131,373,848
Less Accumulated Depreciation For:				
Land Improvements		(3,640)		(3,640)
Buildings	(5,308,236)	(468,631)	319,487	(5,457,380)
Vehicles and Equipment	(4,611,350)	(629,244)	411,536	(4,829,058)
Infrastructure	(48,819,345)	(3,266,565)		(52,085,910)
Total Accumulated Depreciation	(58,738,931)	(4,368,080)	731,023	(62,375,988)
Total Capital Assets, Being Depreciated, Net	71,935,895	(2,678,130)	(259,905)	68,997,860
Governmental Activities Capital Assets, Net	\$ 73,070,828	\$ 2,890,439	\$ (422,529)	\$ 75,538,738

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 3. Capital Assets (Continued)

Capital asset activity for the year ended June 30, 2004 was as follows: (Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government: (Continued)				
<u>Business-Type Activities:</u>				
Capital Assets Not Being Depreciated:				
Construction In Progress	\$	\$	\$	\$
Land	316,250	205,317		205,317 316,250
Total Capital Assets Not Being Depreciated	316,250	205,317		521,567
Capital Assets, Being Depreciated:				
Land Improvements	7,873,501	37,068		7,910,569
Buildings	584,197			584,197
Vehicles and Equipment	3,604,628	874,880	(154,553)	4,324,955
Total Capital Assets Being Depreciated	12,062,326	911,948	(154,553)	12,819,721
Less Accumulated Depreciation For:				
Land Improvements	(7,460,010)	(139,498)		(7,599,508)
Buildings	(111,314)	(13,277)		(124,591)
Vehicles and Equipment	(2,315,201)	(378,569)	139,098	(2,554,672)
Total Accumulated Depreciation	(9,886,525)	(531,344)	139,098	(10,278,771)
Total Capital Assets, Being Depreciated, Net	2,175,801	380,604	(15,455)	2,540,950
Business-Type Activities Capital Assets, Net	\$ 2,492,051	\$ 585,921	\$ (15,455)	\$ 3,062,517

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

General Government	\$ 128,752
Protection to Persons and Property	774,401
General Health and Sanitation	9,109
Recreation and Culture	55,385
Roads, Including Depreciation of General Infrastructure Assets	3,400,433
Total Depreciation Expense - Governmental Activities	<u>\$ 4,368,080</u>

Business-Type Activities

Jail Canteen	\$ 12,782
Solid Waste Operations	518,562
Total Depreciation Expense - Business-type Activities	<u>\$ 531,344</u>

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt - Bonds

A. First Mortgage Refunding Revenue Bonds, Series 1994A

The Daviess County Public Improvement Corporation entered into a bond issue on July 1, 1994 for the purpose of 1) paying the entire principal and interest of the Daviess County, Kentucky Judicial Center Building and Improvement Revenue Bonds, Series 1989 (the "Prior Bonds"); 2) to fund a Debt Service Reserve Fund; 3) to pay for the costs of issuance of Bonds; and 4) to pay for certain costs of equipment to be purchased by the County. The Corporation and Daviess County have entered into an annually renewable lease, dated as of July 1, 1994, wherein the County leases from the Corporation the project and project site. In addition, the Bonds are secured by a foreclosable first mortgage lien on the Project pursuant to the Mortgage Deed of Trust, (the "Mortgage") and by the assignment by the Corporation of all of the Corporation's right, title and interest to the Lease with the County.

The Daviess County Public Improvement Corporation First Mortgage Refunding and Revenue Bonds, Series 1994A were issued July 1, 1994, for \$4,270,000. The Daviess County Public Improvement Corporation entered into a sublease with the Administrative Office of the Courts (AOC), whereby the AOC makes semi-annual payments directly to the bonding agent to partially fund the debt service for the bond issue.

Interest on the Bonds is payable each April 1 and October 1, beginning October 1, 1994. The Bonds will mature as to principal on October 1, 2014. The principal amount of bonds outstanding as of June 30, 2004 was \$2,570,000. Future debt service requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 220,000	\$ 138,634
2006	235,000	125,894
2007	245,000	112,454
2008	260,000	98,314
2009	275,000	83,334
2010-2014	980,000	229,681
2015	355,000	10,117
Totals	<u>\$ 2,570,000</u>	<u>\$ 798,428</u>

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt - Bonds (Continued)

B. General Obligation Public Projects Bonds, Series 1999

The Fiscal Court issued obligations, dated March 1, 1999, with interest payable beginning on October 1, 1999, and semiannually thereafter on April 1 and October 1 at varying rates from 4.00% to 4.375%.

The bonds were issued by the County to 1) provide funds to retire the outstanding County of Daviess, Kentucky, Series 1996 Solid Waste System Revenue Bond Anticipation Notes and 2) paying certain costs related to the issuance of the Bonds. The proceeds of the Notes were used to provide for construction and equipment acquisition related to the County's Phase II for development of the County's Solid Waste Landfill, which have been determined to be "public projects" under the Ordinance in accordance with KRS 66.011(17). As of June 30, 2004, bonds outstanding were \$2,635,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 220,000	\$ 110,234
2006	225,000	101,434
2007	235,000	92,434
2008	245,000	82,916
2009	255,000	72,871
2010-2014	1,455,000	194,209
Totals	<u>\$ 2,635,000</u>	<u>\$ 654,098</u>

C. General Obligation Public Project Refunding and Improvement Bonds, Series 2003A

The County of Daviess entered into a bond issue, County of Daviess, Kentucky General Obligation Public Project Refunding and Improvement Bonds, Series 2003A dated on September 1, 2003 for the purpose of (i) financing the acquisition, and installation of an operations complex for the County (the "Operations Complex Project"), (ii) currently refunding and retiring a Lease Agreement dated as of January 21, 2002 (the "Prior Lease") between the County and the Kentucky Association of Counties Leasing Trust, the proceeds of which were used to finance on an interim basis the costs of the acquisition, construction, and installation of a detention facility for the County (the "Detention Facility Project," and together with the Operations Complex Project, the "Series 2003A Project") and (iii) paying costs of issuing the Series A Bonds. The issue amount of the bonds was \$8,720,000. Interest on the bonds will be payable from September 1, 2003, on March 1 and September 1, commencing March 1, 2004, and the Series A Bonds mature each September thereafter. The principal outstanding as of June 30, 2004, was \$8,720,000. Future principal and interest requirements are:

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 4. Long-term Debt - Bonds (Continued)

C. General Obligation Public Project Refunding and Improvement Bonds, Series 2003A
(Continued)

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 225,000	\$ 334,430
2006	230,000	329,596
2007	235,000	324,655
2008	245,000	319,403
2009	250,000	313,396
2010-2014	1,360,000	1,445,903
2015-2019	1,645,000	1,165,819
2020-2024	2,015,000	791,653
2025-2029	2,515,000	293,063
Totals	<u>\$ 8,720,000</u>	<u>\$ 5,317,918</u>

D. General Obligation Public Project Bonds, Series 2003B

The County of Daviess entered into a bond issue, County of Daviess, Kentucky General Obligation Public Project Bonds, Series 2003B (Transient Room Tax Supported Project) dated on September 1, 2003 for the purpose of (i) financing the acquisition, construction and installation of improvements to the Owensboro Museum of Fine Art and the Owensboro Riverpark Center (the "Series 2003B Project") and (ii) paying the costs of issuing the Series B Bonds. The issue amount of the bonds was \$2,270,000. Interest on the bonds will be payable from September 1, 2003, on March 1 and September 1 commencing March 1, 2004, and the Series B Bonds mature each September thereafter. The principal outstanding as of June 30, 2004, was \$2,270,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 60,000	\$ 86,387
2006	60,000	85,187
2007	65,000	83,937
2008	65,000	82,638
2009	65,000	81,297
2010-2014	355,000	378,097
2015-2019	425,000	309,141
2020-2024	525,000	211,872
2025-2029	650,000	77,469
Totals	<u>\$ 2,270,000</u>	<u>\$ 1,396,025</u>

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt - Financing Obligations

A. Landfill

On September 14, 1995, the Daviess County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust Program for the purpose of creating and maintaining a landfill for the benefit of the County. The principal was \$2,096,000 at a variable interest rate for a period of 10 years, with interest paid monthly and principal paid annually. The termination date is February 1, 2005. The principal outstanding as of June 30, 2004, was \$280,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest & Fees
2005	\$ 280,000	\$ 9,839
Totals	\$ 280,000	\$ 9,839

B. Airport

The Daviess County Fiscal Court entered into a sublease agreement with the City of Owensboro, Kentucky for the purpose of funding debt service – Airport Revenue Bonds – related to the expansion of the Owensboro-Daviess County Airport. The sublease was entered into on June 1, 1995. Under the terms of the sublease agreement, the County agreed to lease certain airport servitude aviation easements and other property and improvements for one half of the base rentals. The County's portion was reduced to 42.34%. Any additional rentals are due to be paid by the City of Owensboro, Kentucky under its sublease agreement. During the fiscal year ended June 30, 2004, the County paid \$153,196 to the City of Owensboro, Kentucky for its share of the sublease. The County's share of principal outstanding as of June 30, 2004, was \$1,475,000. Future principal and interest requirements are:

Fiscal Year Ended June 30	Governmental Activities	
	Principal	Interest
2005	\$ 100,000	\$ 86,197
2006	105,000	80,598
2007	110,000	74,613
2008	117,500	68,150
2009	125,000	61,247
2010-2014	742,500	187,119
2015	175,000	10,281
Totals	\$ 1,475,000	\$ 568,205

DAVISS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 5. Long-term Debt - Financing Obligations (Continued)

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2004, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 5,625,000	\$10,990,000	\$ 420,000	\$16,195,000	\$ 725,000
Financing Obligations	9,412,444		7,657,444	1,755,000	380,000
Governmental Activities					
Long-term Liabilities	<u>\$ 15,037,444</u>	<u>\$10,990,000</u>	<u>\$ 8,077,444</u>	<u>\$17,950,000</u>	<u>\$ 1,105,000</u>

Note 6. Short-term Debt

In July 2003, Daviess County participated in the Kentucky Association of Counties Kentucky Advance Revenue Program by issuing a note in the amount of \$10,370,000, with principal being due in January 2004. While the County did not use the borrowed funds in order to meet current General Fund expenses, they were able to reinvest the funds and receive net interest earnings of \$137,813.

	Beginning Balance	Additions	Reductions	Ending Balance
<u>Governmental Activities:</u>				
Kentucky Advanced Revenue Program	\$ 0	\$10,370,000	\$10,370,000	\$ 0
Governmental Activities				
Short-term Liabilities	<u>\$ 0</u>	<u>\$10,370,000</u>	<u>\$ 10,370,000</u>	<u>\$ 0</u>

Note 7. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$181,940 in interest on financing obligations and \$481,213 in interest on bonds.

Note 8. Landfill Closure and Post-Closure Costs

The County operates a landfill in West Louisville, Kentucky. The County must comply with established state and federal landfill operating, closure, and post-closure procedures. The landfill opened in January 1996, with an estimated life of 21.67 years. During the 03-04 Fiscal Year, the landfill was granted an expansion effective February 2004, which increased its estimated useful life by 50 years. As of June 30, 2004, the estimated remaining life of the landfill was 44.1 years. Revised estimated closure costs total \$165,000 and revised estimated post-closure care costs total \$2,475,000 or \$82,500 per year. Estimates are based upon 2002 projections, actual costs may be higher due to inflation, changes in technology, or changes in regulations.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 8. Landfill Closure and Post-Closure Costs (Continued)

Daviess County prepares required financial statements on the modified cash basis of accounting in accordance with the laws of Kentucky, therefore no liability has been recognized for the closure or post-closure care costs. State and federal laws and regulations require the fiscal court to provide financial assurance that landfill closure and post-closure care costs are properly funded. In order to meet financial assurance requirements, the fiscal court reserves a portion of the landfill receipts for landfill closure and post-closure care. For every ton deposited into the County's contained landfill, \$2 is transferred from the Solid Waste Operating Fund into the Solid Waste Closure Fund and \$1 is transferred into the Solid Waste Post-Closure Fund. At June 30, 2004, the Solid Waste Closure Fund had a balance of \$2,178,470 and the Solid Waste Post-Closure Fund had a balance of \$1,317,691.

Note 9. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 18.51 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 10. Deferred Compensation

On November 9, 1982, the Daviess County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by The Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered Supplementary retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 105 Sea Hero Road, Suite 1, Frankfort, Kentucky, 40601-8862, or by telephone at (502) 573-7925.

DAVIESS COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2004
(Continued)

Note 11. Insurance

For the fiscal year ended June 30, 2004, Daviess County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 12. Self-Insurance

The Daviess County Fiscal Court elected to begin a self-funded health insurance plan in April of 2002. This self-funded insurance plan covers all employees. The county pays for 90% of each county employee's coverage, the employee contributes the remaining 10%. Daviess County elected to purchase a stop-loss insurance policy from Hartford Life and Accident Insurance Company to cover losses from individual and aggregate claims once the county reached the individual and aggregate attachment points. Employees are required to assume liability for claims in excess of maximum lifetime reimbursements established by the insurance company.

Daviess County Fiscal Court contracts with Nyhart for administration of the Health Insurance Fund. The Health Insurance Fund had a balance of \$357,864 as of June 30, 2004. The fund balance consists of excess of premiums and reimbursements over claims paid.

Note 13. Related Party Transactions

The Daviess County Fiscal Court awarded a mowing bid to Kelly Rhodes, who is an employee of the Daviess County Road Department. During fiscal year ended June 30, 2004, the Daviess County Fiscal Court paid \$1,984 to Kelly Rhodes.

Note 14. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. Then current year construction cost was deflated back to this estimated year of construction or reconstruction to arrive at estimated historical cost.

DAVISS COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2004

DAVISS COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information

For The Year Ended June 30, 2004

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 8,303,500	\$ 8,303,500	\$ 8,990,530	\$ 687,030
In Lieu Tax Payments	1,000	1,000	1,319	319
Excess Fees	800,000	800,000	710,890	(89,110)
Licenses and Permits	186,000	186,000	171,210	(14,790)
Intergovernmental Revenue	4,938,965	9,856,115	5,986,140	(3,869,975)
Charges for Services	70,000	70,000	77,942	7,942
Miscellaneous	954,600	954,600	608,803	(345,797)
Interest	200,000	300,000	201,454	(98,546)
Total Revenues	15,454,065	20,471,215	16,748,288	(3,722,927)
EXPENDITURES				
General Government	5,283,608	5,380,168	4,885,134	495,034
Protection to Persons and Property	2,219,824	2,325,774	2,140,027	185,747
General Health and Sanitation	250,345	282,935	261,865	21,070
Social Services	304,838	305,238	265,332	39,906
Recreation and Culture	3,831,557	4,090,657	1,563,328	2,527,329
Airports	201,166	210,166	209,422	744
Bus Services	360,000	367,000	366,364	636
Debt Service	210,000	10,650,000	10,434,323	215,677
Capital Projects	3,871,400	7,924,650	2,481,993	5,442,657
Administration	8,031,790	8,295,090	1,782,401	6,512,689
Total Expenditures	24,564,528	39,831,678	24,390,189	15,441,489
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(9,110,463)	(19,360,463)	(7,641,901)	11,718,562
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	4,500,000	14,870,000	10,370,000	(4,500,000)
Transfers From Other Funds			1,094	1,094
Transfers To Other Funds	(3,111,537)	(3,231,537)	(2,404,469)	827,068
Total Other Financing Sources (Uses)	1,388,463	11,638,463	7,966,625	(3,671,838)
Net Changes in Fund Balances	(7,722,000)	(7,722,000)	324,724	8,046,724
Fund Balances - Beginning	7,722,000	7,722,000	8,212,699	490,699
Fund Balances - Ending	\$ 0	\$ 0	\$ 8,537,423	\$ 8,537,423

DAVISS COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
Required Supplementary Information
For The Year Ended June 30, 2004
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental Revenue	\$ 1,468,500	\$ 1,768,500	\$ 1,396,509	\$ (371,991)
Miscellaneous	10,000	10,000	43,013	33,013
Interest	10,000	10,000	5,109	(4,891)
Total Revenues	1,488,500	1,788,500	1,444,631	(343,869)
EXPENDITURES				
Roads	3,206,765	3,630,265	2,887,846	742,419
Capital Projects				
Administration	25,500	2,000	1,033	967
Total Expenditures	3,232,265	3,632,265	2,888,879	743,386
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(1,743,765)	(1,843,765)	(1,444,248)	399,517
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	1,643,765	1,743,765	1,300,000	(443,765)
Total Other Financing Sources (Uses)	1,643,765	1,743,765	1,300,000	(443,765)
Net Changes in Fund Balances	(100,000)	(100,000)	(144,248)	(44,248)
Fund Balances - Beginning	100,000	100,000	242,793	142,793
Fund Balances - Ending	\$ 0	\$ 0	\$ 98,545	\$ 98,545

DAVISS COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
Required Supplementary Information
For The Year Ended June 30, 2004
(Continued)

JAIL FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Intergovernmental Revenue	\$ 3,024,928	\$ 3,024,928	\$ 3,395,737	\$ 370,809
Charges for Services	325,000	325,000	317,203	(7,797)
Miscellaneous	155,000	155,000	251,869	96,869
Interest	3,000	3,000	112,978	109,978
Total Revenues	<u>3,507,928</u>	<u>3,507,928</u>	<u>4,077,787</u>	<u>569,859</u>
EXPENDITURES				
Protection to Persons and Property	4,653,200	4,610,100	4,511,409	98,691
Debt Service	450,000	523,100	395,073	128,027
Administration	10,500	500	512	(12)
Total Expenditures	<u>5,113,700</u>	<u>5,133,700</u>	<u>4,906,994</u>	<u>226,706</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,605,772)</u>	<u>(1,625,772)</u>	<u>(829,207)</u>	<u>796,565</u>
OTHER FINANCING SOURCES (USES)				
Transfers To Other Funds			(127,992)	(127,992)
Transfers From Other Funds	<u>1,505,772</u>	<u>1,525,772</u>	<u>900,000</u>	<u>(625,772)</u>
Total Other Financing Sources (Uses)	<u>1,505,772</u>	<u>1,525,772</u>	<u>772,008</u>	<u>(753,764)</u>
Net Changes in Fund Balances	(100,000)	(100,000)	(57,199)	42,801
Fund Balances - Beginning	<u>100,000</u>	<u>100,000</u>	<u>148,194</u>	<u>48,194</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 90,995</u>	<u>\$ 90,995</u>

DAVIESS COUNTY
BUDGETARY COMPARISON SCHEDULES – MAJOR FUNDS
Required Supplementary Information
For The Year Ended June 30, 2004
(Continued)

SOLID WASTE CLOSURE FUND				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Interest	\$ 25,000	\$ 25,000	\$ 23,859	\$ (1,141)
Total Revenues	25,000	25,000	23,859	(1,141)
EXPENDITURES				
General Health and Sanitation	300,000	300,000	62,113	237,887
Administration	1,745,000	1,745,000		1,745,000
Total Expenditures	2,045,000	2,045,000	62,113	1,982,887
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(2,020,000)	(2,020,000)	(38,254)	1,981,746
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	320,000	320,000	288,328	(31,672)
Total Other Financing Sources (Uses)	320,000	320,000	288,328	(31,672)
Net Changes in Fund Balances	(1,700,000)	(1,700,000)	250,074	1,950,074
Fund Balances - Beginning	1,700,000	1,700,000	1,928,396	228,396
Fund Balances - Ending	\$ 0	\$ 0	\$ 2,178,470	\$ 2,178,470

DAVIESS COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2004

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The General Fund Budgetary Comparison Schedule differs from the Statement Of Revenues, Expenditures and Changes In Fund Balances – Governmental Funds for the following:

	General Fund
Ending Fund Balance-Budgetary Basis	\$ 8,537,423
Less: KARP Proceeds	(10,370,000)
Plus: KARP Principal Payment	10,370,000
Gain on Sale of Capital Assets	<u>561,573</u>
Ending Fund Balance-Modified Cash Basis	<u><u>\$ 9,098,996</u></u>

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DAVIESS COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

DAVIESS COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2004

	Local Government Economic Assistance Fund	Solid Waste Post Closure Fund	Solid Waste Debt Service Fund	Solid Waste Construction Fund	Daviess County Public Improvement Corporation	Total Non-Major Governmental Funds
ASSETS						
Cash and Cash Equivalents	\$ 162,407	\$ 1,317,691	\$ 316,930	\$ 123,382	\$ 484,332	\$ 2,404,742
Total Assets	<u>\$ 162,407</u>	<u>\$ 1,317,691</u>	<u>\$ 316,930</u>	<u>\$ 123,382</u>	<u>\$ 484,332</u>	<u>\$ 2,404,742</u>
FUND BALANCES						
Unreserved:						
Special Revenue Fund	\$ 162,407	\$	\$	\$	\$	\$ 162,407
Capital Projects Fund				123,382		123,382
Debt Service Funds			316,930		484,332	801,262
Reserved:						
Landfill Post Closure		1,317,691				1,317,691
Total Fund Balances	<u>\$ 162,407</u>	<u>\$ 1,317,691</u>	<u>\$ 316,930</u>	<u>\$ 123,382</u>	<u>\$ 484,332</u>	<u>\$ 2,404,742</u>

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DAVIESS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004

DAVIESS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2004

	Local Government Economic Assistance Fund	Solid Waste Post Closure Fund	Solid Waste Debt Service Fund	Solid Waste Construction Fund
REVENUES				
Intergovernmental	\$ 242,129	\$	\$	\$
Interest	5,036	14,508	9,171	1,362
Total Revenues	<u>247,165</u>	<u>14,508</u>	<u>9,171</u>	<u>1,362</u>
EXPENDITURES				
General Government				
General Health and Sanitation				8,237
Recreation and Culture	493,738			
Roads	270,000			
Debt Service			1,114,501	
Total Expenditures	<u>763,738</u>	<u></u>	<u>1,114,501</u>	<u>8,237</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(516,573)</u>	<u>14,508</u>	<u>(1,105,330)</u>	<u>(6,875)</u>
Other Financing Sources (Uses)				
Transfers To Other Funds				
Transfers From Other Funds		144,164	332,036	44,683
Total Other Financing Sources (Uses)		<u>144,164</u>	<u>332,036</u>	<u>44,683</u>
Net Change in Fund Balances	(516,573)	158,672	(773,294)	37,808
Fund Balances - Beginning	678,980	1,159,019	1,090,224	85,574
Fund Balances - Ending	<u>\$ 162,407</u>	<u>\$ 1,317,691</u>	<u>\$ 316,930</u>	<u>\$ 123,382</u>

SOI: Fourth Quarterly Financial Report <P-10>

DAVIESS COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – NON-MAJOR GOVERNMENTAL FUNDS – MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2004
(Continued)

Daviess County Public Improvement Corporation	Total Non-Major Governmental Funds
\$ 299,340	\$ 541,469
28,189	58,266
<u>327,529</u>	<u>599,735</u>
10	10
	8,237
	493,738
	270,000
360,674	1,475,175
<u>360,684</u>	<u>2,247,160</u>
<u>(33,155)</u>	<u>(1,647,425)</u>
(1,094)	(1,094)
36,280	557,163
<u>35,186</u>	<u>556,069</u>
2,031	(1,091,356)
482,301	3,496,098
<u>\$ 484,332</u>	<u>\$ 2,404,742</u>

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DAVISS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2004

**DAVIESS COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2004

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Daviess County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Daviess County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Daviess County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Daviess County reported in Part C of this schedule.
7. The programs tested as major programs were: Health Care Facilities and Other Construction Program (CFDA #93.887), EPA- Special Appropriations Program-Horse Fork Basin Project (CFDA# 66.606), and Title IV-D Child Support Enforcement (CFDA #93.563).
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Daviess County was not determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None.

REPORTABLE CONDITIONS

None.

This finding was corrected in the current year.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

Reference: 2003-1. "The County Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits."

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DAVIESS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

DAVIESS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2004

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department of Justice</u>		
Passed-Through State Justice Cabinet: Crime Victim Assistance Program (CFDA #16.575)	6553-VC4-16/02	\$ 27,000
<u>U.S. Environmental Protection Agency</u>		
Passed-Through State-Department for Environmental Protection: Surveys, Studies, Investigations and Special Purpose Grants-Special Appropriations Grant (CFDA #66.606)	Unavailable	853,196
<u>U.S. Department of Health and Human Services</u>		
Direct Program: Health Care Facilities and Other Facilities - Community Health Center (CFDA #93.887)	1C76HF00314-01	\$ 383,079
Passed-Through State Cabinet for Families and Children: Title IV-D Child Support Enforcement Program (CFDA #93.563)	M-03180586	<u>467,044</u>
Total U.S. Department Of Health and Human Services		850,123

DAVIESS COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
Fiscal Year Ended June 30, 2004
(Continued)

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	Pass-Through <u>Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Department Of Homeland Security</u>		
Passed Through State Department Of Military Affairs:		
State Domestic Preparedness-Equipment Support Program (CFDA # 97.004)	M-02312992	\$ 31,497
Disaster and Emergency Assistance Grant - Coordinator Salary (CFDA #97.036)	Unavailable	18,746
Emergency Management Performance Grants (CFDA # 97.042)	M-04028482	33,788
State and Local All Hazards Emergency Operations Planning (CFDA # 97.051)	M-03055032	5,950
Citizens Corps (CFDA # 97.053)	M-03052269	4,824
Community Emergency Response Teams (CFDA # 97.054)	M-03053041	<u>15,946</u>
Total U.S. Department Of Homeland Security		<u>\$ 110,751</u>
Total Expenditures of Federal Awards		<u><u>\$ 1,841,070</u></u>

DAVIESS COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information
Fiscal Year Ended June 30, 2004

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting.

Note 2 - The federal expenditures by Daviess County Fiscal Court for Community Development Block Grant – State Administered Small Cities Program and the Health Care Facilities and Other Construction Program includes awards to subrecipients as follows:

<u>Program</u>	<u>CFDA Number</u>	<u>Subrecipient</u>	<u>Pass-Through Grant Amount</u>
		Daviess County Public Health	
Health Care Facilities & Other Construction	93.887	Taxing District	\$ 383,078

Note 3 - Subsequent Events

In August of 2004, the Daviess County Fiscal Court was notified of the discovery of coal on the Fairview Drive Property, which had been purchased by the Daviess County Fiscal Court for the Horse Fork Storm Water Detention Basin with a federal grant from the Environmental Protection Agency. On January 6, 2005, the fiscal court was notified that the state had approved the removal of the coal, which was estimated at 35,000 to 40,000 tons. The Environmental Protection Agency is aware of the coal discovery and the fiscal court's intent to mine the coal, but as of February 25, 2005 had not modified the original grant agreement.

Note 4 - CFDA Program Number Change

Disaster and Emergency Assistance Grants - Coordinator Salary CFDA number was changed from 83.544 to 97.036. Previously this program was administered by the U.S. Federal Emergency Management Agency, but is now administered by the U.S. Department of Homeland Security.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Daviess County, Kentucky, as of and for the year ended June 30, 2004, which collectively comprise the County's basic financial statements and have issued our report thereon dated February 25, 2005. Daviess County presents its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Daviess County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether Daviess County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.



Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 25, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Reid Haire, Daviess County Judge/Executive
Members of the Daviess County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Daviess County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. Daviess County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Daviess County's management. Our responsibility is to express an opinion on Daviess County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Daviess County's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Daviess County's compliance with those requirements.

In our opinion, Daviess County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

Internal Control Over Compliance

The management of Daviess County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Daviess County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
February 25, 2005

**CERTIFICATION OF COMPLIANCE –
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

DAVIESS COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2004**


CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

DAVIESS COUNTY FISCAL COURT

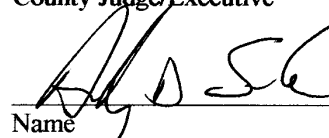
For The Fiscal Year Ended June 30, 2004

The Daviess County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name

County Judge/Executive



Name

County Treasurer

